

CHAPTER 7

PHYSICAL INVENTORY CONTROL

A. GENERAL

1. This chapter provides procedures, performance objectives, and effectiveness reporting to enhance supply effectiveness by improving the accuracy of inventory control and asset information in the wholesale supply system of the DoD.

2. Basic elements of the physical inventory control program prescribed by this chapter apply to the Military Departments and the Defense Agencies, hereafter referred to as DoD Components, and establish:

a. Uniform procedures, based on existing DoD policy, for maintaining accurate records, conducting physical inventories and location surveys/reconciliations, researching potential inventory discrepancies, and for quality control of work processes affecting inventory accuracy.

b. Management control of all DoD wholesale supply system assets of:

(1) principal items,

(2) package fuels,

(3) secondary items on hand at CONUS and overseas depots as well as other selected distribution system storage sites including contractor-owned and/or contractor-operated facilities when assets are maintained on the DoD wholesale accountable records (excluding loaned materiel which will be accounted for in accordance with chapter 4, section N.), and

(4) ammunition.

c. Comparable measures of performance for cost effective analysis among the various inventory control systems.

d. Reporting procedures necessary to measure the effectiveness of physical inventory control in the DoD supply system.

3. Exclusions

a. These procedures are not applicable to bulk petroleum, complete ships, aircraft, ballistic missiles, nuclear weapons, and space vehicles; contractor-owned and/or contractor-operated facilities for which the assets are not maintained on the DoD wholesale

accountable record; IPE reportable to the DIP EC; National Security
* Agency/Central Security Service assets; and National Defense Stock
* Pile assets.

b. Physical inventory control procedures for bulk petroleum are contained in DoD 4000.25- 9-M (reference **(r)**).

c. Nuclear weapons for which DoD has custodial responsibility are inventoried in accordance with JCS Pub 6 (reference (s), Volume II, Part 4, Section **5**).

B. POLICY

DoD policy is contained in DoD Instruction 4140.35, (reference **(t)**).

C. PHYSICAL INVENTORY PROCEDURES

1. The nature of inventory inaccuracies and the cost of counting and reconciliation require that the approach to the taking of physical inventory be more selective than the 100 percent wall-to-wall total item count concept. Available inventory resources must be directed toward those discrepancies, controlled inventory items, and high usage items for which the maximum returns will be derived from the resources which are applied.

2. DoD Components will conduct scheduled inventories on all items for which they are accountable, as follows:

a. Items subject to complete inventory not less than once each fiscal year:

(1) Controlled inventory items (see figure **7-2**). In some instances physical inventory and location surveys will be conducted concurrently for ammunition.

(2) Any other items or categories so designated by the DoD Components.

b. Items not otherwise scheduled for a complete inventory under the **criteria** prescribed in subparagraph **C.2.a. will** be subject to either a random sampling or a selective physical inventory system which includes all items as potential candidates for inventory but which predominantly selects those items with the greatest significance for supply support as determined by the Service/Agency.

3. The random sampling technique will be guided by the following criteria:

- b. Reversal of prior quarters' adjustment transactions.
- c. Reversal of current quarters' adjustment transactions.
- d. Total value of net adjustments during the current period (i.e., **value** of net gains added to value **of net** losses).

F. LOCATION AUDIT PROGRAM

Each DoD Component will implement a location audit program which will **consist** of both a location survey and a location reconciliation. The DoD acceptable accuracy goals are (a) Location Survey Accuracy--97 percent, and (b) Location Reconciliation Accuracy--97 percent. DoD Components may impose more stringent standards internally.

1. Location Audit Program Errors

a. There are three types of errors uncovered in the location audit program.

(1) Type 1. Accountable/custodial records which show a positive stock balance with no supporting locator record, locator record established with no physical assets in storage, or **physical** assets in storage with no supporting locator record.

(2) Type 2. Locator record with no supporting accountable record. (Location reconciliation error only.)

(3) Type 3. Mismatch of any of the following data elements (when optional elements are included in the location survey or location reconciliation program, they will be used in calculating the accuracy rate):

(a) Unit of issue.

(b) **Supply** condition code.

(c) NSN has been deleted or is under the cognizance of another inventory manager.

(d) Ownership **code.¹**

(e) Controlled inventory item code (see appendix *** B19**). (For location survey, verification of the code will consist **of** ensuring that assets are stored in areas providing the degree of security commensurate with the assigned code.)

¹For location reconciliation only.

(f) Shelf-life code.

(g) Quantity (optional).

(h) Type of pack code (for subsistence only). (See appendix **B19.**)

(i) Inventory category code (optional).¹

b. Errors will be subject to validation research before they are counted as errors. Location audit program results will be reported in the Inventory Control Effectiveness Report as prescribed in section J. only one error per surveyed location and one error per location reconciliation line item with discrepancies is to be reported; however, DoD Components will collect and analyze all Type 3 errors by element.

2. Location Survey

a. Location survey requires a physical verification, other than actual count, between actual assets and recorded location data to ensure that all assets are properly recorded as to location, identity, condition, shelf-life code, and unit of issue. As an option, Services/Agencies may include a quantity comparison for physical inventory purposes. In some instances, location survey and physical inventory will be conducted concurrently for ammunition.

b. A complete location survey of all items at each storage activity will be conducted not less than once each fiscal year and more frequently if the need is indicated.

c. The proper sequence of operating a location survey requires the comparing of assets found in storage locations with locator records. This sequence of operation is important to detect assets in unrecorded locations.

d. As an objective, it is desirable to identify items to inventory lots or segments. Lots/segments will be of a manageable size (number of items) to permit location survey in a minimum time period, to ensure maximum uninterrupted service to customers, and to obtain the greatest degree of accuracy from the location survey.

e. Items within a lot/segment which have been subject to a complete item inventory will be considered to have satisfied the annual survey requirement **when** the entire lot/segment is located in a clearly designated, coterminous warehouse space. These inventoried

¹For location reconciliation only.

a. Warehousing **practices**--to include checks of storage practices, stock rotation, shelf life, identification of materiel in storage, mixed stock, and location accuracy. Separate but identical quality checks will be made following any major **rewarehousing** projects.

b. Receiving practices--to include **checks** of documentation, materiel identity, quantity, materiel supply condition code, processing timeliness, and verification of **daily** input data to the location system.

c. Issuing practices--to include checks of legibility of issue documents, accuracy of stock selection as to identity, quantity, unit of issue, shelf life, supply condition code, type of pack (subsistence only), marking of outgoing shipments, and release to carriers.

d. Validity of automated data--to include checks of all receipt, issue, and adjustment transaction data entries against input documentation.

e. Inventory practices--to include checks of all inventory counts, location surveys, location reconciliations, causative research, and adjustments at both the **ICP** and storage activities.

f* Catalog practices--to include checks of all catalog change processing, using the affected recorded locations as the universe.

g. Locator file updates--to sample the accuracy of changes posted to the locator file (e.g., **all additions**, deletions, and changes of unit of issue, supply condition code, shelf life, etc.) at least weekly.

2. Whenever possible, quality control checks of these work processes **will** include identification of the individual performing the tasks to provide a means to motivate improved individual performance.

3. Continued command management emphasis and review of performance are essential for the success of the quality control program. Command managers must ensure effective organizational inter-relationships among the functional elements concerned with the physical inventory control program such as: comptroller, data systems, transportation, warehousing, maintenance, quality control, and supply management. When quality control checks reveal that the level of accuracy for an operation does not meet a DoD prescribed accuracy goal, appropriate command corrective action will be directed.

I. REPORT OF INVENTORY CONTROL EFFECTIVENESS

1. Each DoD Component will prepare Reports of Inventory Control Effectiveness, as formatted in appendix A5, for each quarterly period

ending December 31, March 31, June 30, and September 30. Submit a separate report, so identified **in the top line**, to reflect the values and performance **statistics** for ammunition, and omit these figures from the general report for DoD wholesale supply system materiel. Reports will:

a. Be prepared in accordance with the instructions in section **J. When** goals are not achieved, the report will be accompanied by a narrative analysis of the trends and significant comments on physical inventory control performance reflected in the report to include major error causes and corrective action initiated.

b. Reflect inventory control performance for all DoD wholesale **supply** system assets of **principal** and secondary items (including package fuels) less all materiel exclusions listed in DoDI 4140.35 (reference (t)), (i.e., bulk petroleum, complete ships, aircraft, ballistic missiles, nuclear weapons, and space vehicles; **contractor-owned** and/or contractor-operated facilities for which the assets are not maintained on the DoD wholesale accountable record; IPE reportable to the **DIPEC**; and National Security Agency/Central Security Service assets).

c. Be submitted in an original and 1 copy to the Defense **Logistics Standard** Systems Office, **ATTN: DLSSO-BI**, Cameron Station, Alexandria, Virginia 22304-6100, not later than 75 calendar days following the end of the reported quarter. The above reporting requirement has been assigned RCS **DD-P&L(Q)935**.

2. Source data used in the reporting of stock fund inventory transactions which are governed by separate instructions in **accord-**ante with DoD 7420.13-R (reference (y)) will also be used in **prepar-**ing this report. Transaction data governed by DoD 7220.9-M (reference (z)) will be used in preparing this report.

J. INSTRUCTIONS FOR PREPARING THE REPORT OF INVENTORY CONTROL
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The following instructions are provided for preparing the ICE Report, RCS **DD-P&L(Q)935**, appendix A5:

1. Report Heading/Columns

a. Reporting Organization. Enter the name of the reporting DoD Component.

b. Quarter Ending. Enter the date on which the quarterly report period ends. The columnar data will reflect performance during the quarterly period covered.

c. Fiscal Year to Date. Enter the last two digits of the fiscal year. The columnar entries will reflect cumulative data for the fiscal year through the end of the reporting period.